

Minnesota Department of Finance

April 1999

State Revenues on Forecast in February and March

Net general fund revenues totaled \$1.744 billion during February and March, \$11 million (0.6 percent) more than forecast. Receipts for the 1999 fiscal year now total \$8.691 billion. Receipts from the individual income tax and motor vehicle sales tax were above forecast, while sales tax and corporate income tax revenues fell below expected levels. Through the first three quarters of the 1999 fiscal year state revenues other than those from the tobacco settlement were 7.8 percent above the levels received during the first three quarters of fiscal 1998.

Summary of Tax Receipts: February - March 1999

	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	-----Dollars in Millions-----			

Individual	807.3	857.2	49.9	6.2
Sales	506.7	459.5	(47.2)	(9.3)
Corporate	181.6	175.8	(5.8)	(3.2)
Motor Vehicle	70.9	71.1	0.2	0.3
Other	<u>166.0</u>	<u>180.2</u>	<u>14.2</u>	8.6
TOTAL	1,732.5	1,743.7	11.1	0.6

Individual income tax receipts exceeded the forecast by \$50 million during February and March, while net sales tax receipts were \$47 million less than anticipated. Larger than anticipated sales tax refunds were the source of much of that negative variance.(see page 4) Claims for sales tax refunds fluctuate considerably over the calendar year and large positive or negative quarterly variances are not uncommon. Often variances in refund payments are offset in the following quarter. The large positive variance in individual income tax receipts was due almost entirely to higher than anticipated withholding tax collections. Much of that gain appears to be due to differences in the timing and processing of receipts and is expected to be offset by lower receipts over the next quarter.

Individual income tax receipts include only withholding and individual estimated tax payments. Variances in the refunds and final payments for tax year 1998 are not reported during the tax processing season. They will be reported in the July *Economic Update* after processing of timely 1998 returns has been completed.

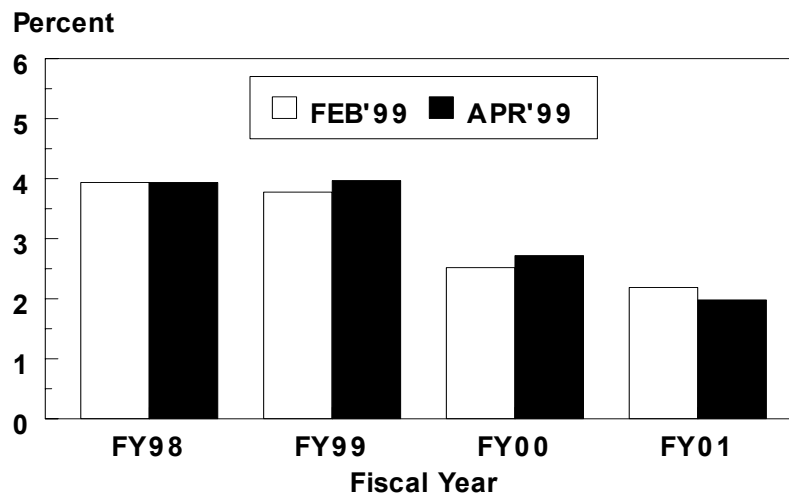
Economic Outlook Changes Little Since February

Oil prices are up, NATO is engaged in a military operation in Yugoslavia, and much of Asia and Latin America is in recession, yet the outlook for the U.S. economy has improved slightly since January. Real GDP growth in the fourth quarter of 1998 was stronger than anyone suspected, and the momentum from end-of-1998 activity appears to have carried forward into the first three months of 1999. Forecasters have raised projected growth rates for this year slightly, though no one believes the U.S. economy will be able to continue to grow at a 4 percent rate much longer. No signs of a recession are on the horizon, but forecasters expect U.S. consumer spending to grow more slowly for the remainder of this year. After midyear, real GDP growth rates in the more normal two to two and one-half percent range are anticipated. Unexpected events could cause a sharper drop in the U.S. growth rate, but this expansion has already weathered so many potentially serious shocks that it appears that little short of a major financial crisis could cause a recession in the next year.

Data Resources Inc., (DRI), Minnesota's national economic consultant, is now slightly more optimistic than in February, but there have been only minor changes in their U.S. outlook. DRI expects real GDP to grow at a 4.0 percent annual rate in fiscal 1999, up 0.2 percent from February's forecast. Real growth rates of 2.7 percent and 2.0 percent are now forecast for fiscal 2000 and 2001, up 0.2 percent and down 0.2 percent respectively from February. The probability assigned to the Control forecast remains at 60 percent.

Little Change in Economic Outlook for 2000-01 Biennium

Real GDP, Annual Percent Change



To this point NATO's activity in the Balkans has had less impact on financial markets and on U.S. consumer confidence than did the Gulf War. The difference appears to be that U.S. oil supplies are not threatened by military action in Yugoslavia. Recent OPEC actions have increased oil prices, but those increases are smaller than those which followed the Kuwait invasion. Higher oil prices, if they hold, will slow the economy by fall, but they are unlikely to force economic growth much below the 2 percent level in 2000. Indeed, DRI economists note that the growing nationwide labor shortage may be a more significant impediment to future growth than energy prices.

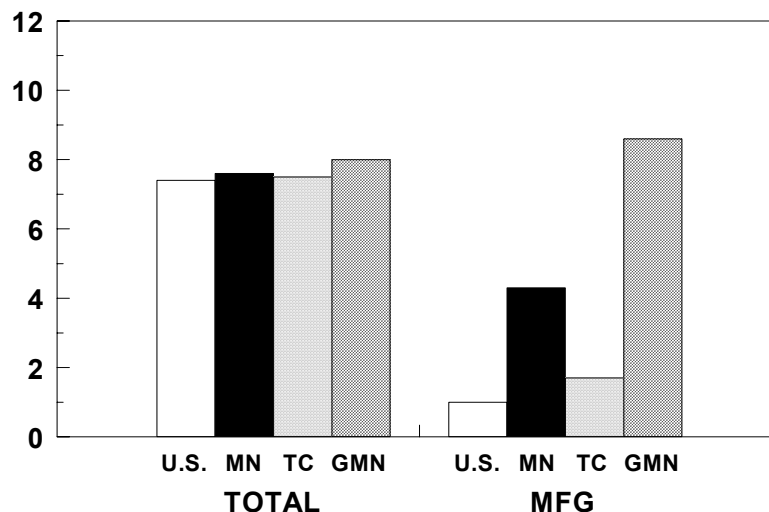
Minnesota Job Growth Exceeds U.S. Average for 1995-98

Minnesota's 1998 unemployment rate of 2.5 percent was the lowest in the nation, a full 0.2 percentage points below second place Nebraska's. The national unemployment rate was 4.4 percent, and only six states had rates below 3.0 percent. Minnesota's unemployment rate has been below 3.0 percent for 15 consecutive months, and below 4.0 percent since September of 1996. Monthly unemployment rates in Minnesota have been at or above 4.0 percent only nine times since June, 1994, and during that time have never exceeded 4.1 percent.

Minnesota's low unemployment rate and high labor force participation rate have made it difficult for local firms to find new workers. But, despite the tight job market, payroll employment in the state continues to grow faster than the national averages. Between 1995 and 1998 payroll employment in Minnesota increased by 7.6 percent, 0.2 percent more than the national average. In 1998, even with the lowest unemployment rate in the nation, Minnesota added 60,000 new jobs.

Greater Minnesota and Twin Cities Adding Jobs Faster than U.S. Average

Percent Change in Payroll Employment, 1995-98



Manufacturing employment has also continued to grow in Minnesota, increasing by 4.3 percent between 1995 and 1998, a period when manufacturing jobs increased nationally by only 1 percent. Job growth and manufacturing job growth rates have been slower, both in Minnesota and nationally, than in the period just after the end of the 1990-91 recession, but jobs continue to be filled at a greater rate than would normally be expected given the extended period of extremely low unemployment observed in the state.

Job growth has not been concentrated in the Twin Cities metropolitan area. While the Twin Cities did grow more rapidly than the rest of the state between 1992 and 1995, non metro Minnesota grew faster than the U.S. average as well. Since 1995 employment has increased more rapidly outside the metro area. Manufacturing employment increased by 8.6 percent outside the Twin Cities region between 1995 and 1998, more than four times as fast as in the Twin Cities.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	1999 Fiscal Year to			February - March 1999		
	Forecast Revenues	Actual Revenues	Variance Act-Fcst	Forecast Revenues	Actual Revenues	Variance Act-Fcst
<u>Four Major Revenues:</u>						
Individual Income Tax						
Withholding	3,371,825	3,419,756	47,931	743,200	791,131	47,931
Declarations	679,798	681,789	1,991	64,100	66,091	1,991
Miscellaneous	94,094	94,094	0	0	0	0
Gross	4,145,718	4,195,640	49,922	807,300	857,222	49,922
Refunds	69,000	69,000	0	0	0	0
Net	4,076,718	4,126,640	49,922	807,300	857,222	49,922
Corporate & Bank Excise						
Declarations	582,832	595,328	12,496	171,600	184,096	12,496
Miscellaneous	73,573	78,660	5,087	21,800	26,887	5,087
Gross	656,405	673,987	17,582	193,400	210,982	17,582
Refunds	72,929	96,342	23,413	11,800	35,213	23,413
Net	583,476	577,645	(5,831)	181,600	175,769	(5,831)
Sales Tax						
Gross	2,582,797	2,574,353	(8,444)	531,960	523,516	(8,444)
Refunds	120,369	159,176	38,807	25,239	64,046	38,807
Net	2,462,427	2,415,177	(47,250)	506,721	459,471	(47,250)
Motor Vehicle Sales	335,920	336,074	154	70,900	71,054	154
<u>Other Revenues:</u>						
Inherit/Gift/Estate	38,942	41,242	2,299	8,214	10,513	2,299
Liquor/Wine/Beer	39,932	40,189	257	7,448	7,705	257
Cigarette & Tobacco	125,867	126,231	364	26,982	27,346	364
Deed and Mortgage	115,948	117,157	1,208	21,148	22,356	1,208
Insurance Gross Earnings	79,378	81,818	2,440	28,600	31,040	2,440
Lawful Gambling	42,543	43,037	494	9,095	9,589	494
Health Care Surcharge	83,011	82,922	(89)	19,348	19,259	(89)
Other Taxes	820	814	(6)	210	204	(6)
General Fund RTC	16,836	17,293	457	2,667	3,124	457
Income Tax Reciprocity	39,367	39,367	0	0	0	0
Investment Income	136,925	137,207	281	36,716	36,998	281
Tobacco Settlement	460,800	460,800	0	0	0	0
Other and Unallocated	52,961	57,916	4,955	9,586	14,540	4,955
Other Subtotal	1,233,331	1,245,991	12,660	170,014	182,674	12,660
Other Refunds	11,715	10,230	(1,485)	4,000	2,515	(1,485)
Other Net	1,221,616	1,235,761	14,145	166,014	180,159	14,145
Total Gross	8,954,171	9,026,045	71,874	1,773,574	1,845,448	71,874
Total Refunds	274,014	334,748	60,734	41,039	101,773	60,734
Total Net	8,680,157	8,691,297	11,140	1,732,535	1,743,675	11,140